

EUROPEAN NEWS

'Interest to be derived from balance of his account is dwindling,' says IISS report

Wisdom of banking on Gorbachev doubted

By Robert Mauthner, Diplomatic Editor

THE WEST'S almost exclusive support of President Mikhail Gorbachev as the only leader who can deliver democratic and economic reforms in the Soviet Union has been seriously questioned in a report by the London-based International Institute of Strategic Studies.

In its Strategic Survey for 1990-91, published yesterday, the IISS says a "predictable" Soviet Union, pursuing a policy of co-operation with its neighbours, is a pre-condition of a stable new world order. However, only a democratic Soviet Union can be a stable one. "A conservative leadership, once again suppressing meaningful reform by force, cannot create a secure system, or produce a country with a future."

Mr Gorbachev, whose vision was essential to "the swing

away from the stagnation of the Brezhnevian era", is not, and probably never was, prepared to see his country move all the way to free market economics or true democracy, the report claims.

"It must now be asked if the policy of banking exclusively on him (Mr Gorbachev) can any longer be politically sustained, for the interest that can be derived from the balance of his account is dwindling."

The report describes the US as "the last, if hobbled, superpower." Its extraordinary success during the Gulf conflict has, paradoxically, made it difficult for it to act with disregard for the wishes of other key countries, as it sometimes did in the past.

To create his coalition in the Gulf war and to win continued

agreement in the UN Security Council, President George Bush had to ensure that the countries involved would believe their interests would be taken into consideration. As a result, the US has accumulated debts to members of that disparate coalition, which will be difficult to reconcile.

In addition, the US will probably need more than financial aid from its allies in future similar crises. In five years' time or so, the US would not be able to field the same size of force as it did in the Gulf and would have to rely more heavily on the military contributions of its European allies.

The important part played by the United Nations in the Gulf crisis has undoubtedly given it new prestige. But the report is doubtful that the

international organisation can maintain this high profile.

"The unacceptable way in which Saddam Hussein overturned international norms of behaviour was particularly clear. The next crisis is likely to occur in much less clear circumstances, making positive and unanimous UN action more problematic."

The report considers that the conditions for achieving a Middle East peace settlement have been much improved by the outcome of the Gulf war. But there are still many obstacles, not least Israeli Prime Minister Yitzhak Shamir's adherence to a Greater Israel, "filled with Soviet and other Jews", with Jordan becoming the official homeland of the Palestinians.

"It is possible to argue that Israel may never have a better

opportunity to put an end to the enmity with the Palestinians, which is corroding Israel's own moral values, and to create a more secure place for itself in the Middle East," it says.

On security co-operation in Europe, the report says the Gulf war had the net effect of underlining the importance of one crucial old structure - the Atlantic alliance - and to highlight the lack of progress so far in building new structures, such as the pan-European Conference on Security and Co-operation in Europe.

"Expectations are now lower," the report states. "There is now less emphasis on the role of institutions and more on that of policies, in dealing with specific security problems."



Albanian demonstrators throw rocks at police who fired shots in the air and used water cannon yesterday to disperse a rally of more than 10,000 people in central Tirana in support of hunger-striking miners. Several people were injured. Yesterday also saw the re-establishment of full diplomatic relations between Britain and Albania for the first time since 1939.

Just for now, Lenin's statue — and the union — keep their heads

Ukraine, the second-largest Soviet republic and an economic power house, could make or break Gorbachev's plans for a renewed union

SOLDIERS and barricades have thus far protected the statue of Lenin in central Kiev from the wrath of the citizenry.

But were he alive today the Bolshevik leader would surely not be happy with the scene his likeness surveys. Lenin's assertion in 1918 that "losing the Ukraine would be like losing our heads" is still apt 72 years later.

The fate of the treaty Moscow is negotiating with nine republics to preserve the Soviet Union in a renewed form hinges in large part on the participation of this the second-largest republic, an agricultural and industrial power house.

But despite its cultural and historic links with the Slavic Russian republic, the Ukraine — which is still ruled by communists — is likely to upset President Mikhail Gorbachev's hopes to sign the Union Treaty this summer.

Although the Ukraine signed the widely-hailed union agreement on April 23 between Mr Gorbachev and the nine republics, even hard-line communist deputies in the Ukrainian parliament insist it is a statement of intent and not

legally binding.

Moreover, the Ukraine government last October made a deal to end a politically-explosive student hunger strike that forbids the republic from signing the treaty before its sovereignty declaration of July 16 1990 is entrenched in a new constitution.

Deputies from all political parties agree that it will be impossible to ratify this new constitution before the end of the year.

This procedural barrier to the Ukraine entry into a renewed union has not been erected by chance. A somewhat

Mr STEPAN KHMARA has become a cause célèbre in the Ukraine as the symbol of radical opposition to the republic's ruling Communists, writes Chrystia Freedland in Kiev.

Surrounded by coalminers in hard hats and traditional embroidered shirts who form his self-appointed bodyguard, the Ukrainian parliamentarian made his way to Kiev's courthouse this week with the confident stride of a victor not a victim.

The authorities are so frightened of the Khamara case that they have postponed his trial on charges of assaulting an undercover police-

man for almost seven months. What is significant is that it is taking place in a building opposite the statue of another man who called for an uprising of the Ukrainian masses — the 17th century Cossack leader Bohdan Khmelnytsky.

Mr Khamara stands for an open struggle for political power waged through strikes and demonstrations, instead of the route favoured by most opposition deputies — co-operation with the Communists and a slow process of nation building.

Official efforts to silence him, which began with an attempt last

November to frame him on the charges of assaulting a police officer, have backfired, transforming him into a Ukrainian national hero.

Everything the authorities have done — from stripping Mr Khamara of his parliamentary immunity, to releasing him on April 5 only to rearrest him a week later when he flew to the Donbas coalfield to meet striking miners — has served to increase the 33-year-old deputy's popularity and radicalise the Ukrainian public.

"All the miners support Khamara. He is our leader, the hammer we

unquestioningly follow," said Mr Ihor Shvets, one of Mr Khamara's "proletarian guard of honour" and a leader of the strike committee in Chernomorsk, the western mining town which elected Mr Khamara to the republican parliament.

His greatest political significance has been to draw people like Mr Shvets, and others from the largely Russified and more conservative eastern Ukraine, into the political arena.

A radical nationalist and uncompromising opponent of the Communist party (he views Ukrainian president Leonid Kravchuk, a com-

unist party's general secretary, Mr Stanislav Hurenko.

The radical opposition, in particular those from the western Ukraine, a hotbed of nationalist sentiment which did not come under effective Soviet control until 1945, are less enthusiastic about co-operation with Mr Kravchuk. They fear that an independent Ukraine built with the support of communists would remain socialist.

However, political ambition is likely to push Mr Kravchuk even further towards independence and capitalism in the coming months as he wants to

avoided personal responsibility for the April 23 declaration by making a timely official visit to Germany. He sent his prime minister to Moscow to sign in his stead.

Mr Kravchuk's growing support for Ukrainian sovereignty, exemplified by his exclusive use of the Ukrainian language in parliament and sharp reprimands for communist deputies who are not properly respectful of "the Ukrainian nation", has won him allies among the opposition. It has also alienated a pro-Moscow faction of communists loosely grouped around the Ukrainian commu-

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become the first directly-elected president of the Ukraine.

Economic and political issues play a greater role in the Ukraine than concern for national language and culture in galvanising public support for independence. This is best illustrated by the unlikely alliance which is developing between the miners of eastern Ukraine and the radical nationalists from the west whose uncompromising opposition to the communists is admired by the strike leaders.

Even pro-Moscow communists are agreed that Ukraine

must have greater control over its economy. Mr Oleksandr Moroz, the leader of the communist majority in parliament, voiced a widely held view last week when he attributed Kiev's comparatively well-stocked shop shelves to the Ukrainian coupon system, introduced in November to protect the internal market.

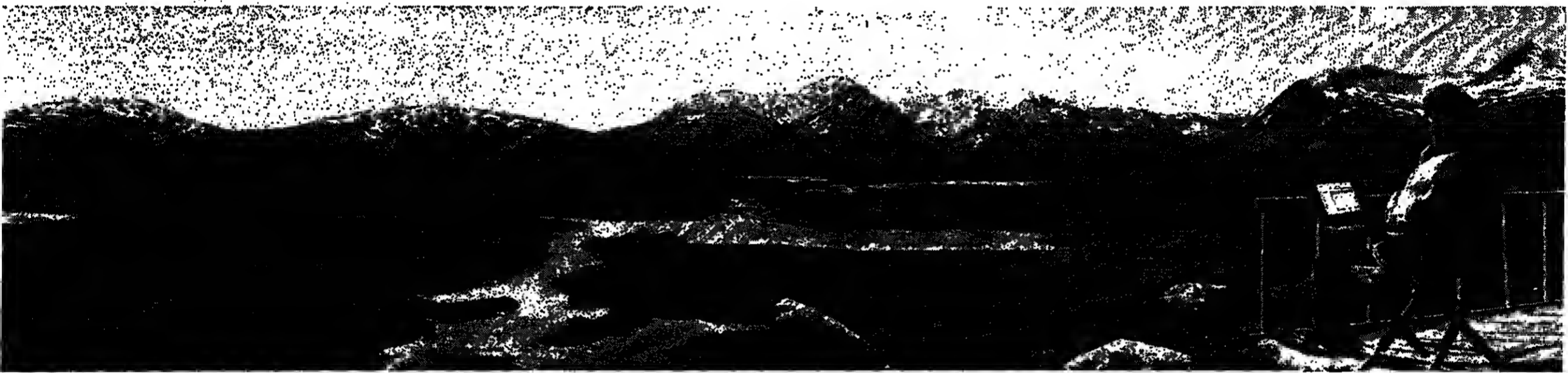
Mr Moroz and aides to prime minister Vitold Fokin say the government plans to replace the coupon system this summer with a more radical, but still ill-defined "separate" currency to be created by affixing special stamps to the existing

Soviet rouble. Details of the scheme have not yet been made public but Mr Moroz says these doctored bills will be the only currency valid for the purchase of a wide range of food and consumer goods.

Mr Fokin, who is the Ukraine's chief negotiator in talks about an all-union economic anti-crisis plan, says the Ukraine is willing to participate but will not tolerate the preservation of a unitary Soviet monetary and fiscal system beyond the end of this year.

The Ukrainian public will have a chance to express its views about socialism, Ukrainian national symbols and other issues in a referendum later this year.

Until then the Ukraine gardens, a traditional source of national pride, are the best gauge of local support for sovereignty. Kiev parks are resplendent with row after row of blue and yellow blossom, the colours of Ukrainian independence. Swimming against the current, communists in Bher-vomohrad, the western Ukrainian mining town, planted red tulips outside their party headquarters. Overnight, the flowers disappeared.



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WORLD TRADE NEWS

Andean five put common back into market

Plans for a trade pact have been revived with some vigour, writes Robert Graham

FOR TWO decades Bolivia, Colombia, Ecuador, Peru and Venezuela have paid lip service to the ideal of a closely integrated Andean Pact. It is not surprising that their leaders face an uphill task convincing sceptics about the seriousness of their commitment to form a common market of 90m inhabitants by 1995.

"It's not going to be easy to convince people," admits Mr Jose Antonio Garcia Belaunda, the recently-appointed director of the Andean Pact Commission's secretariat based in Lima. "But there is a new atmosphere and I think we soon will be able to demonstrate some concrete results."

He cites, for instance, the aim to achieve an "open skies" policy by the end of the year and removing restrictions on cross-border road transport. In attempt to give a higher profile to their plans, the leaders of the five countries went out of their way to publicise the fifth summit of the Andean Pact council in Caracas which ended on May 18. The meeting endorsed a decision to set December 31 this year as the deadline for formalising agreement both on the timetable for a Common External Tariff (CET) and for ground rules for a free trade zone.

The original integration scheme agreed in 1969 was

loosely defined and was primarily political. Its economic ideas merely reproduced in a regional block the protectionist autarkic principles which applied in the individual countries. Chile was included and Venezuela joined in 1973. Then in 1978 Chile left, finding the pact moribund and out of step with its free-market macro-economic policies.

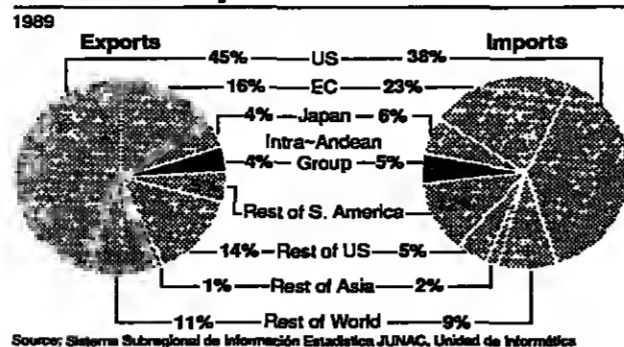
Although Chile has opted to stay out, one of the elements now stimulating integration is precisely the reversal of the discredited import-substitution model of development in favour of an export-orientated deregulated economy of which Chile has become the model.

The five countries may not have synchronised macro-economic policies - Peru in particular is still struggling with hyperinflation - but the policy differences have narrowed. They all recognise that one of the most negative features of the old pact structure was its constitutional distaste for foreign capital.

These strictures have been removed from the pact and individual countries all now possess legislation designed to encourage foreign investment, the last being Peru.

Another factor favouring the pact's revival has been the move by Argentina, Brazil, Paraguay and Uruguay to form a common market, Mercosul

Andean Group



Source: Sistema Subregional de Información Estadística JUNAC, Unidad de Informática

(southern cone market), by 1994.

However, the potential size of the market should not obscure the limited trade conducted between the five. Trade between them accounts for less than 4 per cent of their exports (\$30bn last year) and 5 per cent of their imports (\$18bn).

Big obstacles remain, such as the unresolved border disputes between Colombia and Venezuela, and Ecuador and Peru. A combination of vast distances (greater than Europe) and inhospitable terrain remain formidable natural barriers and make it almost impossible to have a good transportation infrastructure.

There are large disparities in wealth and development. Oil-

rich Venezuela has a per capita income three times that of Colombia, Ecuador and Peru and six times of Bolivia. With the exception of Colombia and Venezuela, the economies do not naturally complement each other.

Indeed Colombia and Venezuela seem to be paying much more real attention to a three-cornered relationship with Mexico that could link them eventually into the latter's proposed free trade agreement with Canada and the US.

The five's exports are primarily of raw materials (all export hydrocarbons) or agricultural goods for the industrialised world. Colombia and Venezuela dominate the pact, and in the late seventies, Venezuela tried to set itself up as the industrial power house of an Andean common market.

These unnecessary projects collapsed with the debt crisis. The big two account for two-thirds of the total volume of all trade while their own bi-lateral commerce makes up almost 60 per cent of the pact's total inter-regional trade. These two are the most advanced in integration; yet there are still serious discrepancies in their exchange rate and monetary policies as well as the timing of trade liberalisation measures.

In recognition of the differing stages of economic restructuring, Colombia, Peru and Venezuela are committed to have a CET in force by the end of 1993 while Bolivia and Ecuador have until 1995. The former already apply a zero tariff on 90 per cent of the products coming from Andean countries.

Bolivia, the first of the pact to liberalise in 1985, has also started a tariff elimination process. Ecuador will carry this out in two stages and all five should be in line by mid-92.

Dismantling the lists of exceptions is due to be carried out largely within the next two years. The pact's commission further plans to harmonise legislation on capital flows, the movement of people and on a common Andean agricultural and livestock policy.

Commission puts pressure on CoCom

BRUSSELS yesterday set out its first tentative steps into the sensitive area of controls that the 12 EC states individually impose on the export of military technology. David Buchanan reports from Brussels.

EC member states have long excluded Brussels from talks on their export controls on "dual use" technology such as computers that could have military uses.

The scope of such controls is set in the Paris-based Co-ordinating Committee for Multilateral Export Controls (CoCom), to which 11 EC states belong, and to whose rules neutral Ireland informally subscribes.

But the Commission has been pressing CoCom on this, out of from a desire to ensure member states do not use export security controls as pretexts to keep frontier checks on intra-EC trade beyond January 1 1993, when all such EC border controls are set to disappear.

Mr Martin Bangemann, EC internal market commissioner, said EC governments had now allowed the Commission to join talks on the administration, but not the scope, of export controls. Brussels aims to strengthen such weak links in the export control chain as Greece and Portugal so that by 1993, EC members could scrap intra-EC trade controls.

Brussels to comply with Gatt ruling on oilseeds subsidies

By William Dullforce in Geneva

THE EUROPEAN Community said yesterday it will comply later this year with a ruling against its oilseeds subsidies by the General Agreement on Tariffs and Trade.

Brussels' move, announced in the Gatt council, should end a dispute with the US over EC subsidies paid to oilseed crushers, to compensate them for the high prices they pay EC farmers for soybeans and other oilseeds. The decision was included in the farm price package agreed by EC agriculture ministers at the weekend. Under it prices for oilseeds will be cut by 1.5 per cent.

But, more significantly for US soybean producers and Gatt, ministers also agreed that the EC commission should submit proposals by July 31 to bring the current oilseed regime into line with the conclusions of the Gatt dispute panel. The ministers undertook to decide on the new regime by October 31.

Mr Rufus Yerxa, deputy US trade representative, said the US assumed that the new regime would apply to all oilseeds planted in the autumn and harvested in 1992. In its complaint to Gatt the US charged that subsidies of the order of 200 per cent of the world market price paid to EC processors had severely curbed US soybean exports to the EC.

Brussels voiced strong reservations about the ruling's arguments when the ruling was adopted by the Gatt council in January, 1990. It then tied modification of its regulations to the outcome of the Uruguay Round trade talks.

The EC yesterday joined in criticising the US for refusing to implement an eight-month-old Gatt ruling against the countervailing duties it is applying to imports of Canadian pork. Mr Yerxa said the US would be ready to consider the panel's findings, if the matter had not been resolved bilaterally by the middle of June under the arbitration process provided for in the US-Canada free trade agreement.

Japan has complained to the Gatt council about a notification from Washington that the US marine mammal protection act would be applied to so-called intermediary nations and that US customs would require all importers of yellowfin tuna fish to certify that no deliveries had been fished by purse seine nets in the eastern Pacific.

French train design chosen for Texas link

By William Dawkins in Paris

THE US state of Texas has chosen a French-designed high speed train to equip an express rail network due to open from 1996 at an estimated cost of \$6bn.

An independent state commission has awarded the concession to build and operate the network to a consortium headed by Morrison-Knudsen, the US construction group, which plans to buy \$400m worth of trains and signals from GEC-Alsthom, the Franco-British engineering giant, and Bombardier, the Canadian transport equipment company.

The only rival, the Texas Fasttrak consortium, was offering a \$7bn project based on German high speed train technology developed by Siemens and Krauss Maffei.

The High Speed Rail Commission was appointed by the Texas state government in 1989 to assess the usefulness of an express rail link and decide on an operator.

The winning consortium will work out final details of contracts and financing over the next 18 months, but it is already committed to using rolling stock based on the French Train à Grande Vitesse (TGV), capable of cruising at 320 kmh on the 1,000km of new line to be built for Texas. Local contractors are to be used for track building and laying.

This will be the first order outside Europe for the TGV, in use in France and ordered for Spain and the Channel Tunnel. "The fact that a country as technically demanding as the US has taken this decision should improve our chances in other markets," said Mr Paul Combeau, a director general of GEC-Alsthom.

The first phase, linking Dallas and Houston, is due to open in 1993, with the remaining links to San Antonio and Austin, to come into service the following year.

Philippines to drop import levy by 1992

By Greg Hutchinson in Manila

THE Philippines' controversial 9 per cent import levy will be reduced by August and eliminated by the end of the year, Mr Jesus Estanislao, finance secretary, said yesterday.

The levy was imposed incrementally last December and January as an emergency revenue measure pending Congress passing fresh tax measures. The laws were never enacted because of political pressures.

The levy resulted in a 14 per cent fall in foreign investments in the first four months of 1991, according to a recent report by Mr Peter Garrucho, the trade and industry secretary. It also spurred inflation, which has reached nearly 20 per cent on an annual basis. But a positive gain has been sharply lower interest rates. Treasury bills have fallen nearly 15 percent points in the past five months to 12.1 per cent.

"We opted for the choice to bring down interest rates because the benefits would be more widely spread," Mr Estanislao said.

The finance secretary said the 9 per cent levy would be "reduced slightly" in August or before, and eliminated by December 31, six months ahead of a self-imposed deadline. The International Monetary Fund would like to see it abolished before the end of the year.

Philippine balance of trade figures for the first quarter released on Tuesday showed the import levy had not rebounded the trade picture. The deficit rose 17 per cent to \$1,028m from the year-before level of \$873.2m.

Mr Estanislao also said the Philippines was expected to have a more liberal foreign investments law in place within two weeks. Intervention by President Corason Aquino was said to have cleared a final obstacle. A dispute within Congress over the length of an "open season" period for foreign investments in the country had bogged down progress of the law, seen as essential to lift the country from its doldrums.

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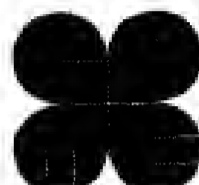


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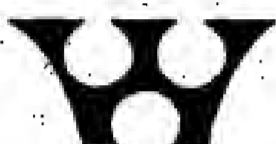


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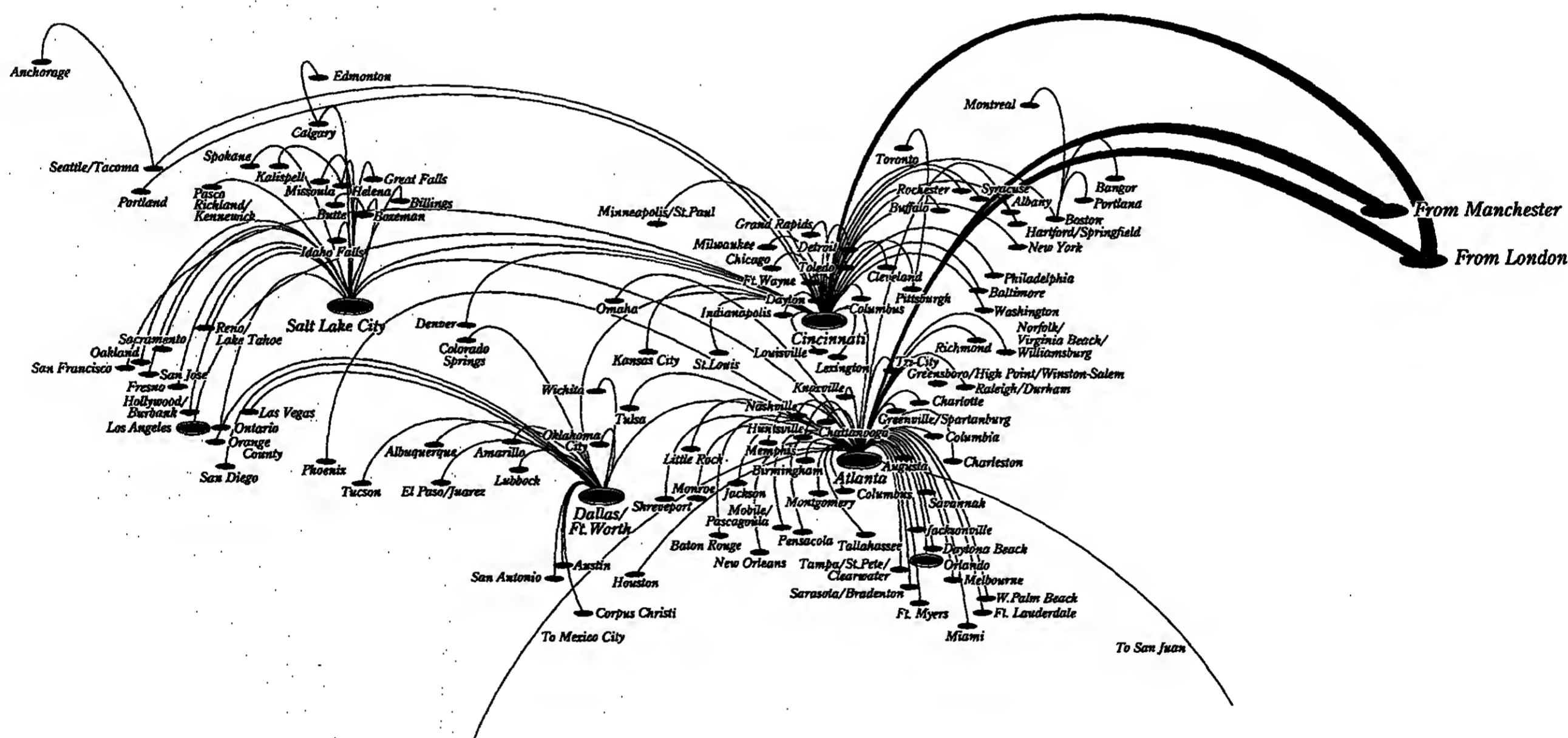


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UK NEWS

Brooke tries to clear way for talks on Ulster

By Ralph Atkins and Our Belfast Correspondent

MR PETER Brooke, the Northern Ireland secretary, paid a flying visit to London yesterday as part of his intensive efforts to overcome problems in finding an acceptable independent chairman for inter-party talks on the political future of the province.

His swift visit, after which he returned to Belfast for more talks with local politicians, prompted speculation that candidates for the chairmanship were being interviewed before being presented to Northern Ireland's local political parties.

Mr Brooke is still struggling to get talks started even though nearly five of the 11 weeks he set aside for negotiations have passed. An extension seems inevitable if progress is eventually seen to be being made.

The nationalist Social Democratic and Labour Party (SDLP) is continuing to boycott the talks until Mr Brooke has reached agreement with the Unionist leaders over the procedures for strand two, when the Dublin government becomes involved.

The SDLP fears that without water-tight assurances the Unionists will stop talks progressing beyond strand one, which will involve only the four main parties in the province and look at setting up a devolved government.

Mr Brooke appears to have concluded that this requires progress to have been made in selecting the chairman, rather than just agreeing a mechanism for doing so and allowing strand one to proceed.

He is expected to present a slate of candidates before a final selection is made.

A sign of hope is Mr Brooke's decision to allow Mr Brian Mawhinney, Northern Ireland office minister, to chair a separate working party to draw up an agenda for strand one. The SDLP is represented on this committee.

A meeting of the Anglo-Irish conference has been set for July 16 - when talks are supposed to be completed. Mr Brooke and the Irish government could agree to another gap for further talks.

Employers face tougher fines over health, safety

By John Gapper, Labour Editor

BRITISH courts will soon be able to quadruple the amount they fine employers for breaching health and safety law after a complaint that companies could be fined more for damaging the environment than for injuring workers.

The Health and Safety Commission (HSC) disclosed yesterday that the Home Office had agreed to raise the maximum fine from £5,000 to £20,000 after it told ministers that there were higher penalties for causing the death of flowers than people.



John Rimington: critical

The HSC also said it intended to hire about 400 staff to cope with its new responsibility for safety in the North Sea oil and gas industry. The Department of Energy previously had only 120 staff carrying out inspection work.

This methods of inspecting safety measures in the North Sea were heavily criticised by Lord Cullen in his inquiry into the Piper Alpha rig disaster. The government subsequently transferred responsibility to the HSC.

The raising of the fine magistrates can impose for allowing serious injury to workers follows a sustained campaign for stiffer penalties by the commission and its administrative division, the Health and Safety Executive.

Although Crown Courts can

Mr John Cullen, chairman of the HSC, said the government would raise the fine for health and safety breaches in this legislative session. The maximum is already being raised from £2,000 to £5,000 in the 1991 Criminal Justice Bill.

Magistrates fined companies an average of £877 per health and safety breach in 1989-90. Mr Cullen described one fine of £200 on a company after a teenage employee lost a limb in a machine it was prohibited from using as a "disgrace".

The HSE has prosecuted some companies on multiple counts of health and safety breaches.

One construction company was fined the maximum of £2,000 on each of 12 counts last summer, which could have meant a fine of £240,000 under the new law.

Mr Cullen, presenting the HSC's plan of work for 1991-92 in London, said the commission expected to have to rewrite all health and safety law covering the North Sea. He said companies were finding a tighter regime.

Mr Cullen said Lord Cullen had "said what he thought of the previous regime" of health and safety inspection. He said there would be far more frequent visits by inspectors to offshore installations in the future.

Shares in two Scottish power companies to be floated at 240p

By Clare Pearson

THE GOVERNMENT will announce this morning that shares in the two Scottish electricity companies are to be floated at a fully paid price of 240p to give a gross dividend yield of 5.1 per cent.

The offer price will give ScottishPower and Hydro-Electric a combined initial market value of about £2.5bn.

The terms mean the Scottish Office has been slightly more generous to investors than had recently been feared in the City. There had been concerns that the yield might be set at 5 per cent or even below.

That would have increased proceeds from the privatisation for the taxpayer but would have made the shares expensive relative to those in the electricity generators and distribution companies in England and Wales.

Scottish customers have the option of applying for shares only in their local company. All other investors will have to buy a package, each comprising 68 shares in ScottishPower and 32 in Hydro-Electric. The package will be split up when stock market dealings start. The terms were struck after

a bidding exercise carried out over the last week. Institutional investors were asked to say how many shares they wanted to underwrite at different yield levels.

These are notional yields based on the fully paid price and the dividends the companies say they would have paid in the year to March 31 if they had then been privatised.

The share price is spread over three payments with 100p payable up front. Customers will be asked to put up an initial minimum of just £100 initially.

BRITAIN IN BRIEF



Counter claims in PO dispute

Post Office Counters managers and union leaders both claimed vindication for their pay stances as counters staff began a four-day strike over a 7 per cent offer.

The Post Office said the Union of Communication Workers' call for stoppages in offices throughout the UK had been largely ignored. Four out of five main post offices were open for business as usual. Mr Alan Tuffin, the union's general secretary, said 7,000 of the 11,000 members called out had obeyed the instruction.

Community tax still uncollected

Ten per cent of budgeted income from the local government tax in England remained uncollected at the end of its first year of operation, the government announced.

The Chartered Institute for Public Finance and Accountancy also warned that the timing for introducing the new council tax by April 1993 was too tight, and the tax would need to be reformed soon after it was introduced.

Mr Michael Portillo, local government minister, announced that local authorities had collected 90 per cent of their budgeted 1990-91 community charge income by the end of March.

Lenders fail to give advice

Some large banks and building societies are failing in their social duty to deal with problems caused by excessive borrowing, Sir George Blunden, the former deputy

governor of the Bank of England, said.

Money Advice Trust, established this year at the prompting of the government and backed by the Bank of England to raise money for debt counselling, had met with a disappointing response.

Directors' pay awards attacked

Mr Frank Dobson, Labour party energy spokesman, called on Prime Minister John Major to condemn pay increases awarded to directors of newly-privatised electricity companies.

According to Mr Dobson, the directors of South Wales Electricity had paid themselves a bonus of at least £8,000 each at the end of last year followed by a 45 per cent pay increase in April.

The company commented that the issue of directors' pay had been set out clearly in the prospectus.

Warning over isolation risk

Britain risks becoming isolated if it tries to catch up with Germany by developing its manufacturing sector, according to a former member of Mrs Margaret Thatcher's policy unit.

Sir Douglas Hague said that the world's most successful economies had a generally low level of their workforces employed in manufacturing. Countries with the highest gross domestic product per head, such as the US and Canada, had less than 20 per cent of the workforce employed in manufacturing, whereas Germany, with a much smaller GDP per head had 32 per cent. Germany was out of line with the UK and the rest of the world he concluded.



Sir Douglas: warning

European air fares 'too high'

Business travellers are paying up to 30 per cent too much for continental air fares because of the lack of competition on the main European routes, said Mr Michael Bishop, chairman of British Midland.

He said lack of competition on European air routes could be costing British companies as much as £286m a year, based on the savings it could offer on the 15 busiest routes out of Heathrow.

British Midland says a survey found that eight out of every ten business air travellers would welcome more competition on European air routes.

Call for energy tax on fuel

An energy tax on petrol and industrial emissions would go some way towards cleaning up air that is so polluted that one in four people in Britain are now at risk from respiratory diseases, the Liberal Democrats said.

Mr Simon Hughes, the party's environment spokesman, urged the government to increase the number of monitoring sites for sulphur dioxide and nitrogen dioxide in the air.

Maths teaching criticised

The teaching of maths in further education colleges has been strongly criticised in a report by Her Majesty's Inspectorate.

Mathematics is an essential part of many vocational courses in colleges, but the HMI express concern that "a minority" of colleges have a policy for maths, and few regularly monitor and review their provision of maths teaching.

British Gas faces courts

British Gas is under increasing pressure to settle its pricing dispute with Thames Power, the consortium planning a 1000MW gas-fired power station in east London.

If a deal is not struck by the end of the week, Thames Power will take British Gas to court, according to Mr Ron Southern, chairman and chief

executive of the Canadian company ATCO, which holds 45 per cent of Thames Power through a subsidiary. He said that British Gas had backed out of a deal at the last minute on several occasions during the last three months. A spokesman for British Gas said "a settlement was imminent".

NHS may get extra funding



The row over the national health service continued when Mr William Waldegrave, health secretary (pictured above), accused Labour of running a "cold campaign of lies and distortions" and insisted his party had the better record on NHS spending.

Mr Waldegrave and Mr David Mellor, chief secretary to the Treasury, challenged the opposition party to make clear how much extra it would spend if elected.

Mr Mellor hinted extra funding could be made available in the next financial year for the NHS.

Top post for ex-ISE director

Ms Rhiannon Chapman, former personnel director of the International Stock Exchange, is to become the first woman director of the Industrial Society.

Ms Chapman, 44, will be only the fifth director in the 79-year history of the independent training and advisory body.

Channel scoop

Channel Tunnel workers have found the biggest fossil of its kind in a cross-over passage. The nautilus - a squid-like creature - weighs about 25 kilograms and is thought to be more than 56m years old.

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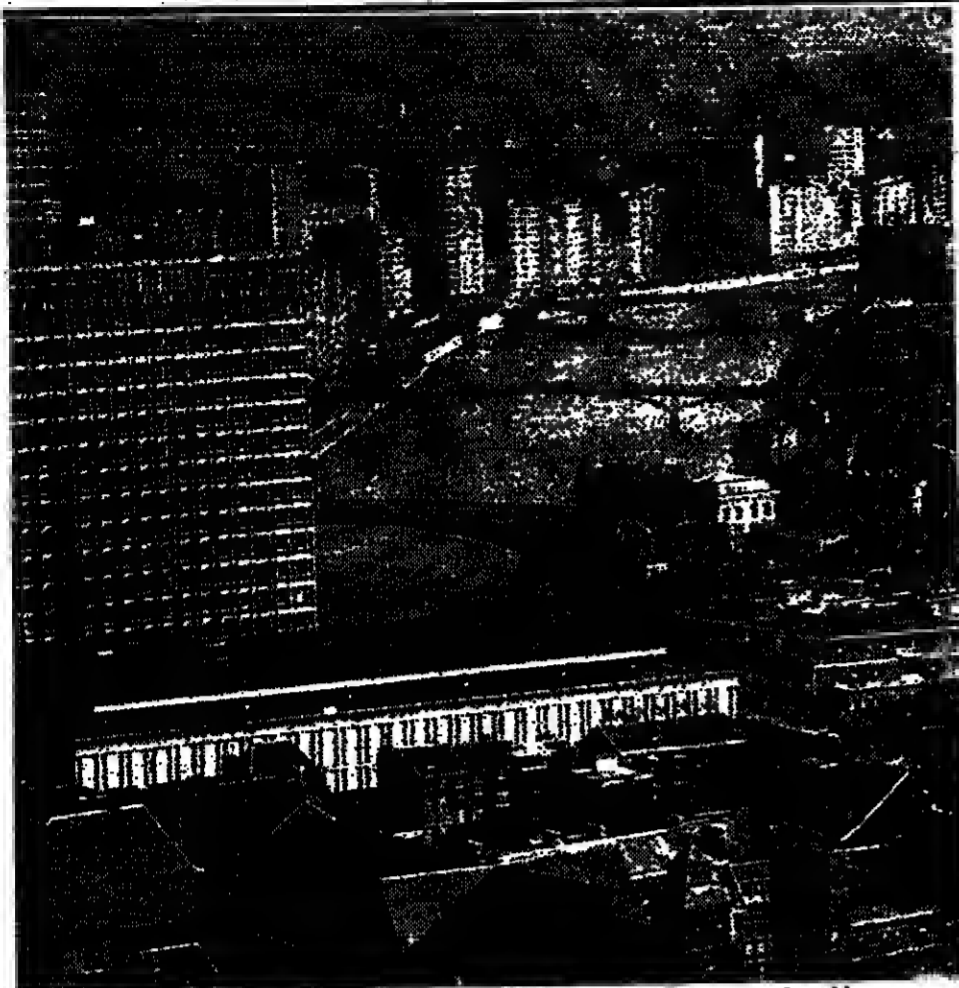
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WALLONIA

Thursday May 30 1991



A city both historic and modern: Liège, capital of Wallonia, maintains a centuries-old battle for dominance of the region. See page 2



Wallonia, traditionally industrial, is trying to rebuild its economy on new foundations, writes David Buchan.

The French-speaking south is also seeking new powers in the federal state of Belgium, and foresees an EC in which regions will rival, and may one day replace, nation states

Clamouring for autonomy

TO THE surprise of almost everyone, including many of the 3.2m Wallonians themselves, Wallonia is coping rather well with its new-found regional autonomy.

Outside the European Community, Wallonians have struck up special relationships with such diverse regions as Quebec, Maryland and Slovakia. Closer to home, they see an EC in which regions will rival, and maybe one day replace, nation states.

Since the mid-80s, investment has flowed into the region, and the government has kept its finances in the black. Having barely digested the wide-ranging economic powers devolved on Belgium's regions in 1988-89, Wallonia is clamouring for more, such as the right to sign international (economic) treaties with foreign countries, while remaining within the security and monetary union of the Belgian federal state.

"We are not doing fantastically, but by continuing to pursue an economic policy of rigorous choices, we can stave off the scenario of catastrophe that many initially predicted", says Mr Bernard Anselme, prime minister of the regional government based in Namur.

There are several reasons why eyebrows might be raised at Wallonia's desire to make its way on the world stage. One is that the southern part of Belgium has never had the international recognition that the rival region of Flanders has had since the Middle Ages. Many is the foreigner who will hazard a guess that Wallonians speak Flemish rather than French.

(The Walloon dialect, of which there are many variants, is in fact nearer to old French than modern Parisian is. The foreigner may be even more confused when he learns that Belgium's small German-speaking community comes under Walloon government for economic, though not cultural, purposes.)

The forthright Walloon response is that only by a greater international role can such ignorance about the region be dispelled. Until recently, too, the region's long decline in its traditional industrial sectors of steel, coal, and glass had seemed to generate fatalism. There appeared to be few successors to such Wallonians as Ernest Solvay, Zenobe Gramme, Lo Baekeland, and Etienne Lenoir, who taught the

world ways of manufacturing soda ash, the dynamo, bakelite, and the internal combustion engine.

Latterly, however, companies have mushroomed in hi-tech areas like biotechnology and space. Walloon trade unions used to throw themselves at the feet, or the throat, of a deeply indebted Belgian state to bail them out. Now industrial peace largely reigns.

Then there is the issue of relative wealth in Belgium. The two other regions, Flanders and bilingual (French-Flemish) Brussels, are richer than Wallonia. Accepting self-reliance means, for Walloons, accepting that they have less than the other regions to rely on. A transitional arrangement will continue until the late 90s to provide a modest transfer of resources from Flanders and Brussels to Wallonia. Even after that, social security will remain a national responsibility, so that Walloons will have part of the cost of their higher unemployment rate paid by their fellow Belgians.

Wallonia has been lucky, Mr Anselme freely admits, that the latest devolution of power to the regions coincided with the boom in the Belgian and European Community economy. The total volume of investment, aided by Mr Anselme's government, rose to Fr45bn in 1987, to Fr78bn in 1988, and to more than Fr90bn in each of the following two years. So, after a miserable first half of the decade in which the Walloon economy grew by a total net 1 per cent, the region started to make up for lost time, with the growth in industrial output rising to 6 per cent in 1988 (faster than Flanders that year) and falling back only slightly since then.

This economic surge has brought little money directly into the coffers of the regional government, which is still largely reliant on central government donations, running at about Fr100bn a year, to carry out its designated responsibilities. These include economic expansion, foreign investment, the environment, energy, public works, vocational training, a large part of research and development, and the promotion of foreign trade - in short, almost anything that

affects business. But it produced a specific windfall - extra dividend income from Cockerill-Sambre, the largest steel company in Belgium, which is 80 per cent owned by the regional government. Some of this was used to repay Fr10bn in loans that Cockerill-Sambre had taken from its majority owner, and another Fr5bn has been spent on housing, employment aids, and containers for recyclable waste materials.

Partly to take advantage of the better economic climate, and partly because the European Commission told it to do so, the Walloon government has made its investment aid policy more selective. "We are re-orienting our aid towards sectors of higher value like biotechnology, agribusiness, engineering, and chemicals, and away from sectors like construction or retailing," says Mr Anselme.

The most important overall result is that "we have not yet borrowed a single franc", says the regional premier. This, in turn, has helped his French-speaking socialist party, traditionally seen as spendthrift by many Belgians, to campaign for the coming national elections under the slogan of "générosité responsable". At the same time, the region has been able to make a modest goodwill gesture by paying more to the French-speaking teachers, for whom Mr Anselme's government is not responsible, but whose rolling strikes disrupted so many Walloon households last year and may again do so this year.

But black spots remain. Unemployment is stubbornly high in Mone-Borinage (27 per cent), Charleroi (26 per cent), and Liège (24 per cent), which makes the Wallonia jobless average up to nearly 20 per cent, more than double that in Flanders, though not far above the nearly 17 per cent in Brussels. The past 25 years have seen Wallonia change from an economy owing 53 per cent of gross regional product to industry and 42 per cent to services, to one based only 36 per cent on industry and a full 60 per cent on services. Services have not, however, provided enough jobs yet.

The structure, too, has changed within Walloon indus-

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try, where the vast majority of people used to work in a small number of very big companies. This is no longer true. Mr Pierre Beusart of the Association of Walloon Businesses says only 173 Walloon companies, out of a total of some 64,000, employ more than 100 people. This is not entirely the sign of the job-creating flexibility associated with a proliferation of small new firms. Some companies, like Fabrique Nationale of Liège and ACEC of Charleroi, have been split up into different entities, while shrinking overall. More hopeful, however, is the burgeoning of new hi-tech companies in pharmaceuticals, biotechnology and even aerospace, often grouped around universities. To talk of "Walloonism" is a trifle absurd, but non-polluting brainpower is playing a more important part in the region's economy.

In contrast to Flanders, Wallonia harbours almost no separatists. Many Walloons are, however, impatient with Mr Wilfried Martens, the national prime minister, to finish the federalising job he has begun. They particularly want to get their regional hands on agriculture, where they see *leur* *Belgo-Flandre* as perpetuating Flemish predominance in the processing of Walloon meat, flour, sugar. They also want more say in transport, particularly the terms on which the TGV rapid train will cross Belgium.

They may have to content themselves with the only thing currently on offer from the Martens government - the right for regions to conclude international agreements on matters within their internal competence.

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